

Message Text

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ACTION EUR-12

INFO OCT-01 EA-12 IO-14 ISO-00 FRB-01 SOE-02 AID-05
CEA-01 CIAE-00 DODE-00 EB-08 DOE-15 H-02 INR-10
INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-05 ICA-20
OES-09 SP-02 SS-15 STR-07 ACDA-12 NEA-10 /177 W
-----072560 031142Z /11

P R 031105Z AUG 78
FM AMEMBASSY LONDON
TO SECSTATE WASHDC PRIORITY 8765
TREASURY DEPT WASHDC PRIORITY
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY DUBLIN
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
AMCONSUL BELFAST
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USEEC ALSO FOR EMBASSY
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DEPARTMENT PASS FEDERAL RESERVE BOARD; TREASURY FOR
DONALD E. SYVRUD, OASIA

E.O. 11652: N/A
TAGS: EFIN, UK
SUBJECT: CHANGES IN NORTH SEA FISCAL REGIME

SUMMARY: ON AUGUST 2, JOEL BARNETT, MP, CHIEF SECRETARY
IN HMTREASURY MADE A STATEMENT ANNOUNCING GOVERNMENT IN-
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TENTION TO RAISE THE LEVEL OF PETROLEUM REVENUE TAX (PRT)
FROM 45 PERCENT TO 60 PERCENT FOR CHARGEABLE PERIODS
AFTER DECEMBER 31, 1978; REDUCING THE UPLIFT ON CAPI-
TAL EXPENDITURE ALLOWED AGAINST PRT FROM 75 PERCENT TO
35 PERCENT ON CONTRACTS ENTERED INTO AFTER AUGUST 2 AND
REDUCING THE OIL ALLOWANCE WHICH IS EXEMPT FROM PRT FROM
ONE MILLION LONG TONS A YEAR SUBJECT TO AN OVERRIDING

MAXIMUM OF TEN MILLION TONS TO A LOWER FIGURE OF 500 THOUSAND METRIC TONS A YEAR FROM JANUARY 1, 1979 WITH A MAXIMUM OF 5 MILLION TONS. END SUMMARY

1. THE STATEMENT MADE BY THE CHIEF SECRETARY WAS AS FOLLOWS:

"WE HAVE COME TO THE CONCLUSION THERE IS SCOPE FOR INCREASING THE SHARE OF NORTH SEA PROFITS WHICH ACCRUE TO THE PUBLIC.

WHEN WE FIXED THE RATES AND ALLOWANCES FOR PRT AT THE BEGINNING OF 1975 WE DELIBERATELY ADOPTED A CAUTIOUS APPROACH. WE SET THE RATE OF PRT NO HIGHER THAN 45 PERCENT AND WE GAVE GENEROUS ALLOWANCES AND RELIEFS BECAUSE OF THE GREAT UNCERTAINTIES AT THE TIME.

NOW, HOWEVER, THOUGH MANY UNCERTAINTIES REMAIN WE ARE IN A POSITION TO TAKE STOCK AND IT IS APPARENT THAT COMPANIES ARE OBTAINING VERY LARGE PROFITS FROM THE NATURAL RESOURCES OF THE NATION. WE BELIEVE THAT THE PUBLIC SHARE OF THESE PROFITS CAN AND SHOULD BE INCREASED WITHOUT ENDANGERING THE EXPLOITATION OF THE LESS WELL-PLACED FIELDS.

WE DO NOT PROPOSE TO ALTER THE STRUCTURE OF THE TAX OR TO REMOVE THE FRONT-END LOADING OF ALLOWANCES WHICH, TOGETHER WITH THE SAFEGUARD PROVISIONS, SERVE TO ENCOURAGE THE EXPLOITATION OF MARGINAL FIELDS. BUT WE DO PROPOSE THAT THE RATE OF PRT SHOULD BE INCREASED FROM 45

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PERCENT TO 60 PERCENT FOR CHARGEABLE PERIODS ENDING AFTER 31 DECEMBER 1978. WE PROPOSE ALSO THAT THE 75 PERCENT UPLIFT AGAINST PRT SHOULD BE REDUCED TO 35 PERCENT IN RESPECT OF QUALIFYING EXPENDITURE UNDER CONTRACTS ENTERED INTO AFTER TODAY AND WE PROPOSE TO HALVE THE OIL ALLOWANCE AS FROM 1 JANUARY 1979. THERE WILL BE SPECIAL TRANSITIONAL ARRANGEMENTS FOR UPLIFT ON EXPENDITURE UNDER CONTRACTS ALREADY ENTERED INTO: THE DETAILS ARE SET OUT IN A PRESS STATEMENT ISSUED TODAY. I AM MAKING COPIES AVAILABLE TO HON MEMBERS FROM THE VOTE OFFICE.

PROVISIONS TO GIVE EFFECT TO THESE PROPOSALS WILL BE INCLUDED IN NEXT YEAR'S FINANCE BILL. WITH PRT CONTINUING TO BE DEDUCTIBLE FOR CORPORATION TAX, WE ESTIMATE THAT THEY WILL INCREASE PUBLIC TAKE BY ABOUT 150 MILLION POUNDS IN THE FINANCIAL YEAR 1979/80. AS REGARDS LATER YEARS, THERE ARE ENORMOUS UNCERTAINTIES BUT WE ESTIMATE THAT AS THE YIELD FROM PRT BUILDS UP WITH MORE FIELDS COMING ON STREAM THE PUBLIC'S SHARE BETWEEN NOW AND THE MIDDLE 1980'S WILL BE INCREASED BY SOMETHING OVER

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P R 031105Z AUG 78
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2 BILLION POUNDS IN TOTAL AND BY ABOUT 0.4 BILLION
POUNDS PER YEAR THEREAFTER AT TODAY'S PRICES.

THE OIL ALLOWANCE AT ITS NEW LEVEL WILL CONTINUE
TO BE OF PARTICULAR VALUE TO SMALL FIELDS, AND THE SAFE-
GUARD PROVISIONS WILL REMAIN UNCHANGED. IF NEVERTHELESS
THERE ARE WORTHWHILE DEVELOPMENTS WHICH PROVE TO BE UN-
ECONOMIC UNDER THE PROPOSED NEW RATES, THE GOVERNMENT
STILL HAS THE MEANS OF ASSISTING THEM IN THE SHAPE OF OUR
POWERS TO REFUND ROYALTIES FREE OF PRT AND CORPORATION
TAX. UP TO NOW WE HAVE NOT HAD TO USE THESE POWERS BUT
MINISTERS STAND READY TO DO SO IN APPROPRIATE CIRCUMSTAN-
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CES IN ORDER THAT DEVELOPMENTS IN THE NATIONAL INTEREST GO AHEAD.

MY RT HON FRIEND THE SECRETARY OF STATE FOR ENERGY IS TODAY ANNOUNCING THE ARRANGEMENTS FOR THE SIXTH ROUND OF OFFSHORE LICENSING, INCLUDING THE BLOCKS ON OFFER. THIS EARLY ANNOUNCEMENT OF OUR INTENTIONS ON TAX WILL ENABLE THE OIL COMPANIES TO CONSIDER THE PROPOSALS AND, IF THEY WISH, TO DISCUSS THEM WITH THE INLAND REVENUE.

THE GOVERNMENT ARE CONSCIOUS OF WHAT HAS BEEN ACHIEVED ON A BASIS OF PARTNERSHIP BETWEEN THE PUBLIC AND PRIVATE SECTORS. THE RIGHT BALANCE MUST BE STRUCK BETWEEN THE NEED TO SECURE FOR THE COMMUNITY A FAIR SHARE OF THE BENEFITS ARISING FROM THE NATIONAL RESOURCE WHICH THE NORTH SEA REPRESENTS, AND THE NEED TO LEAVE THE PRIVATE SECTOR WITH A RATE OF RETURN WHICH IS FAIR IN THE LIGHT OF THE RISKS INVOLVED. THE GOVERNMENT ARE SATISFIED THAT THE CHANGES WHICH I HAVE JUST ANNOUNCED WILL ACHIEVE A BETTER BALANCE."

2. THE TRANSITIONAL ARRANGEMENTS CITED IN BARNETT'S STATEMENT ARE EXPLAINED AS FOLLOWS:

"BECAUSE EXPENDITURE AND UPLIFT ARE ALLOWED AGAINST PROFITS IN THE PERIOD IN WHICH THE EXPENDITURE IS AGREED BY THE INLAND REVENUE, SOME EXPENDITURE WHICH HAS ALREADY BEEN MADE WILL NOT QUALIFY FOR RELIEF UNTIL AFTER THE NEW RATE OF PRT COMES INTO FORCE.

WHERE SPECIFIC SUMS HAVE ALREADY BEEN COMMITTED FOR SPECIFIC WORKS COMPANIES WILL BE ABLE TO CLAIM UPLIFT AT THE 75 PERCENT RATE.

IN OTHER CASES HOWEVER, (EG EXPENDITURE UNDER OPEN-ENDED CONTRACTS) IF THE 75 PERCENT UPLIFT CONTINUED TO BE AVAILABLE IT WOULD BE POSSIBLE FOR COMPANIES TO INCUR EXPENDITURE IN ORDER TO GET BACK IN TAX RELIEF MORE THAN UNCLASSIFIED

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THEY EXPENDED BECAUSE OF THE INTERACTION OF THE NEW RATE OF PRT AND THE OLD RATE OF UPLIFT. FOR EXAMPLE, WITH UPLIFT AT 75 PERCENT AND PRT AT 60 PERCENT, 100 POUNDS WORTH OF EXPENDITURE WOULD QUALIFY FOR TAX RELIEF WORTH POUNDS 102.40 (PRT RELIEF AT 60 PERCENT ON 175 POUNDS (105 POUNDS) PLUS CT RELIEF AT 52 PERCENT ON 100 POUNDS (52 POUNDS) LESS ADDITIONAL CT ON PRT RELIEF OF 52 PERCENT OF 105 POUNDS (POUNDS 54.60).

IT IS PROPOSED THEREFORE THAT WHERE QUALIFYING EXPENDITURE IS MADE UNDER A CONTRACT ENTERED INTO ON OR BEFORE TODAY, OTHER THAN SPECIFIC SUMS COMMITTED FOR SPECIFIC WORKS, THE AMOUNT OF UPLIFT WILL BE RESTRICTED IN SUCH A WAY THAT THE TOTAL VALUE OF THE TAX RELIEFS AVAILABLE FOR THE EXPENDITURE WILL NOT AMOUNT TO MORE THAN THE AMOUNT OF THE EXPENDITURE.

TRANSITIONAL PROVISIONS EXAMPLE

CONTRACT FOR CONSTRUCTION OF PRODUCTION PLATFORM JACKET

DATE OF CONTRACT: 1 JUNE 1977

PRICE: FIXED BASIC PRICE - 50 MILLION POUNDS

SCHEDULE OF PAYMENTS: 1 JULY 1977 POUNDS 5 MILLION

1 JAN. 1978 " 10 "

1 JULY 1978 " 10 "

1 DEC. 1978 " 5 "

1 OCT. 1979 " 20 "

TOTAL " 50 "

TERMS: I. FIXED PRICE AND SCHEDULE OF PAYMENTS

TO BE SUBJECT TO ESCALATION (IN ACCORDANCE WITH FORMULA CONTAINED IN THE CONTRACT) FOR THE SOLE PURPOSE OF REIMBURSING THE CONTRACTOR FOR ANY INCREASES IN COSTS AND LABOUR.

II. THE PRICE MAY BE ADJUSTED ON ACCOUNT OF CHANGE ORDERS MADE SUBSEQUENTLY IN RESPECT OF ALTERATIONS OR ADDITIONS TO THE ORIGINAL SPECIFICATION.

TOTAL PAYMENTS TO CONTRACTOR: (POUNDS MILLIONS)

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1 JULY 1977 5 EQUALS 5)

1 JAN. 1978 10 EQUALS 10)

1 JULY 1978 10 PLUS ESCALATION 2 EQUALS 12) 72

1 DEC. 1978 5 " " 1 EQUALS 6)

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TO SECSTATE WASHDC PRIORITY 8767
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1 OCT. 1979 20 " " 11 EQUALS 31)
1 DEC. 1979 (UNDER CHANGE ORDER)
(DATED 1 MAY 1978 8)
(UNDER CHANGE ORDER
(DATED NOVEMBER 1978 16
TOTAL EXPENDITURE 88
PRT UPLIFT 72 AT 75 PERCENT EQUALS 54
16 AT 75 PERCENT BUT RESTRICTED
TO 10.667
THUS THE EXPENDITURE OF 16 MILLION
POUNDS COMMITTED ON 1 NOVEMBER 1978 WILL
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ATTRACT TOTAL PRT RELIEF OF 26.667 MIL-
LION POUNDS (16 MILLITN POUNDS PLUS
10.667 MILLION POUNDS) AT 60 PERCENT
EQUALS 16 MILLION POUNDS. IT WILL ALSO
RANK FOR CORPORATION TAX RELIEF AT 100
PERCENT BUT THIS WILL BE MATCHED BY A
REDUCTION OF 16 MILLION POUNDS IN THE
EXPENSE DEDUCTION GIVEN FOR COPORATION
TAX IN RESPECT OF PRT PAYMENTS."

3. AN EXAMPLE GIVEN OF THE RESULT OF THE CHANGES UNDER
THE OLD RULES AND NEW RULES FOLLOWS:

"POUNDS MILLION, UNDISCOUNTED 1977 PRICES
FIELD A (TOTAL PRODUCTION 65 MILLION TONNES)

	OLD RULES	NEW RULES
TOTAL GROSS PROFITS	3,900	
CAPITAL EXPENDITURE	700	
OPERATING EXPENDITURE	550	
ROYALTY	360	360
PRT	WTUP	7501

:94094-589, 5-/ 2870 WUIP
 TOTAL GOVERNMENT TAKE L,800 L,890
 TOTAL PRIVATE TAKE 810 720
 PERCENTAGE GOVERNMENT SHARE
 OF NET PROFITS (PERCENT)69 (PERCENT)72
 PROJECT INTERNAL RATE OF
 OF RETURN (PER ANNUM) (PERCENT)19 (PERCENT)17

FIELD B (TOTAL PRODUCTION 30 MILLION TONNES)

TOTAL GROSS PROFITS L,800
 CAPITAL EXPENDITURE 250
 OPERATING EXPENDITURE 390
 ROYALTY 160 160

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PRT 160 390
 CORPORATION TAX 420 310
 TOTAL GOVERNMENT TAKE 740 860
 TOTAL PRIVATE TAKE 420 300
 PERCENTAGE GOVERNMENT SHARE
 OF NET PROFITS (PERCENT)64 (PERCENT)74
 PROJECT INTERNAL RATE OF
 RETURN (PER ANNUM) (PERCENT)38 (PERCENT)31

NOTES

1. ASSUMED CONSTANT REAL OIL PRICE OF 60 POUNDS PER TONNE.
2. THESE FIGURES ASSUME THAT COMPANIES ARE UNABLE TO SET OFF DEVELOPMENT COSTS FOR CORPORATION TAX UNTIL PROFITS FROM THE FIELD IN QUESTION COME ON STREAM; IF THEY HAVE SUFFICIENT OTHER PROFITS TO UTILISE THE RELIEFS IMMEDIATELY THE INTERNAL RATES OF RETURN UNDER THE NEW RULES WOULD RISE TO 24 PERCENT (FIELD A) AND 41 PERCENT (FIELD B). PERCENTAGE GOVERNMENT SHARE OF NET PROFITS (UNDISCOUNTED) IS NOT AFFECTED.
3. NO ALLOWANCE HAS BEEN MADE FOR LAG IN PAYMENT OF ROYALTIES OR PRT; THE ASSUMED LAG FOR CORPORATION TAX IS 1 YEAR.
4. NO ACCOUNT IS TAKEN OF REPAYMENT OF ROYALTIES."
4. TEXT OF PRESS RELEASE BEING AIR-POUCHED.

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Message Attributes

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Decaption Note:
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Disposition History: n/a
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Status: NATIVE
Subject: CHANGES IN NORTH SEA FISCAL REGIME SUMMARY: ON AUGUST 2, JOEL BARNETT, MP, CHIEF SECRETARY IN HMTREASURY MADE A STATEMENT ANNOUNCING GOVERNME
TAGS: EFIN, UK
To: STATE TRSY MULTIPLE
Type: TE
vdkgvkey: odbc://SAS/SAS.dbo.SAS_Docs/8a160358-c288-dd11-92da-001cc4696bcc
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